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Federal Communications Commission
Office of Secretary

John Ryan
RHK Associates

Ryan@rhk.com

RHK Inc
601 Gateway Blvd.
Suite 1050
San Francisco 94080
1800 755-2990

CC 01-338

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ILEC Lines Lost and Gained from UNE-P, etc., 12 months to 3Q 02

January 10,2003

www.rhk.com

What's in this file?

- For each ILEC, current (as of 3Q 02) data on:
  - Lines lost to UNE-P
  - Lines lost to other factors
  - Lines gained through DSL, wireless, long distance

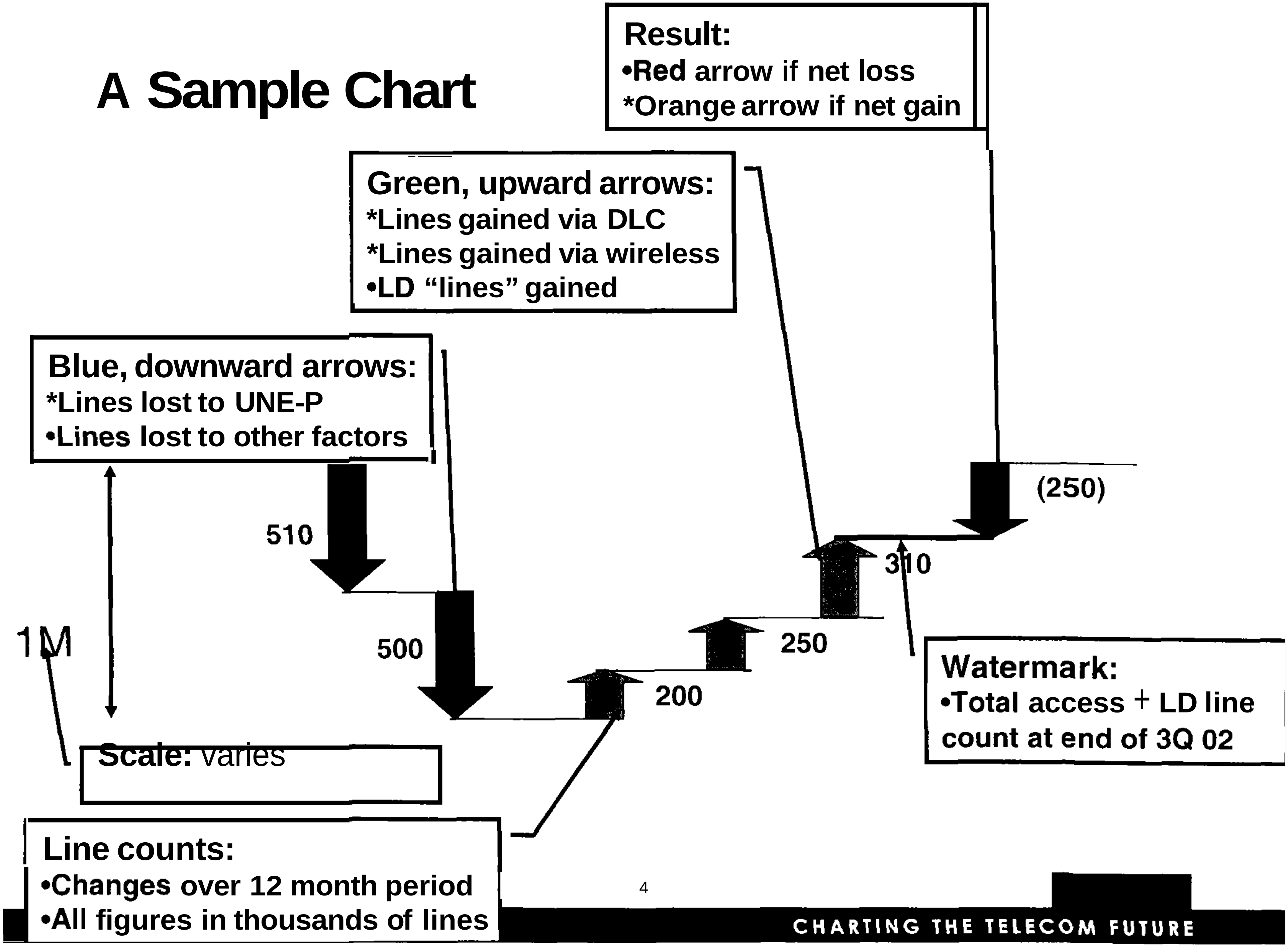
  - Sources: except as noted, the only sources used are the ILECs own financial/investor relations records, as seen at their websites
    - ❖ BLS published records on UNE-P, LD are incomplete
    - ❖ SBC currently has inaccurate data on its site
      - Duplicate data for 2Q 02 and 3Q 02
      - The firm has been notified

Line Loss? Line Gain?

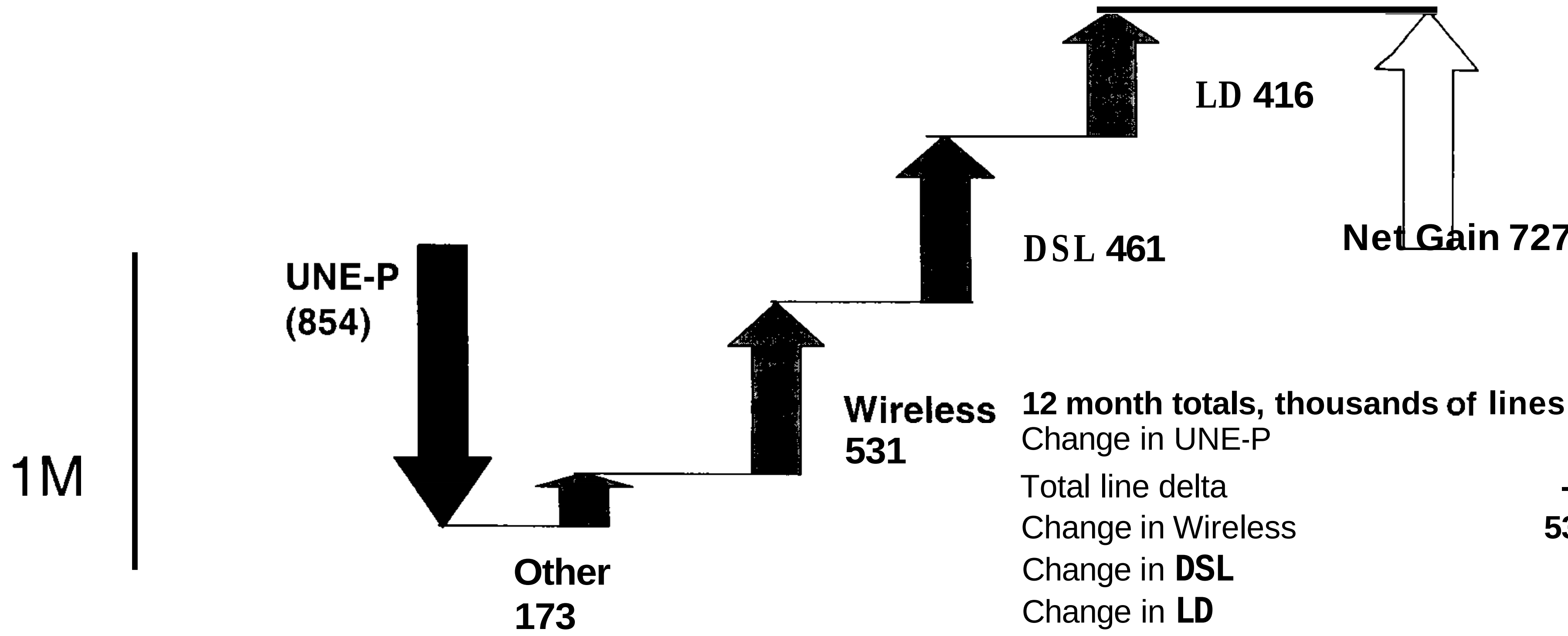
- Line Loss to UNE-P data from websites;
  - Does not include UNE-L or service resale
- Other factors causing line loss include:
  - Migration from wireline to mobile
  - Substitution of DSL (or cable modem) for wireline
  - Upgrade to fractional T1
  - Cancellation of service
  - Deletion of line from SP records

- Line gains:
  - quasi-obvious are the "substitutions" ... DSL and mobile
  - less obvious is capture of the LD business. This is made valid and relevant only because of the explicit *quid pro quo* of section 271 relief

A Sample Chart



BellSouth



12 month totals, thousands of lines

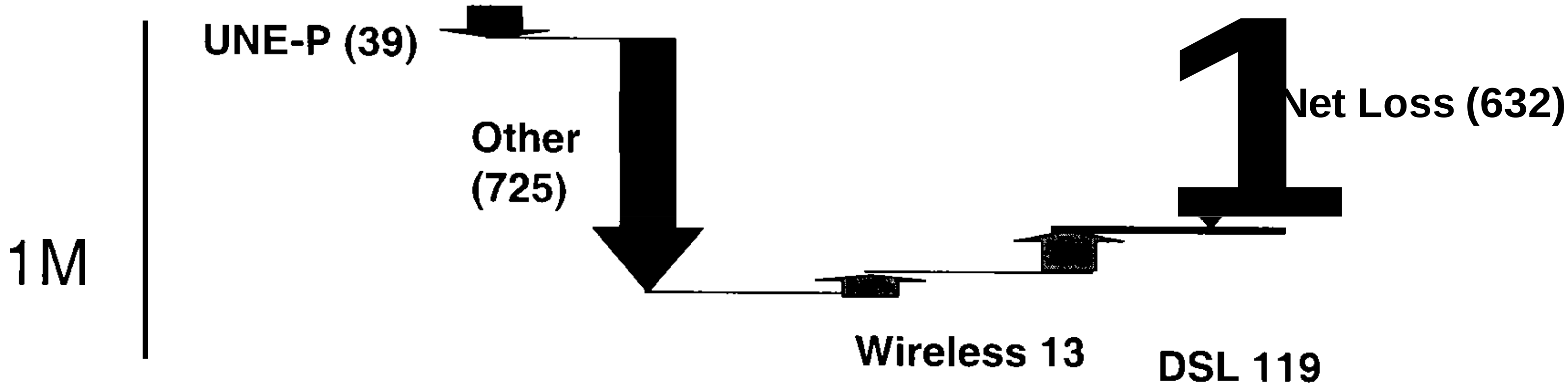
Change in UNE-P	854
Total line delta	-681
Change in Wireless	531.3
Change in DSL	461
Change in LD	416
Composite net	727.3
Net as % of base	2.9%

BellSouth: Notes

- Incomplete data available from BLS make analysis of its UNE-P situation tricky
- It appears that BLS's line loss is more completely due to UNE-P than for ILECs, and that, perhaps, favorable demographics (a rising population) is providing some platform of line growth behind the erosion due to UNE-P
- BLS is the junior partner in Cingular wireless, which did relatively poorly in 2002

Qwest

12 month totals, thousands of lines	
Change in UNE-P	**39**
Total line delta	**-764**
Change in Wireless	**13**
Change in DSL	**119**
Change in LD	**0**
Composite net	**-632**
Net as % of base	**-3.7%**

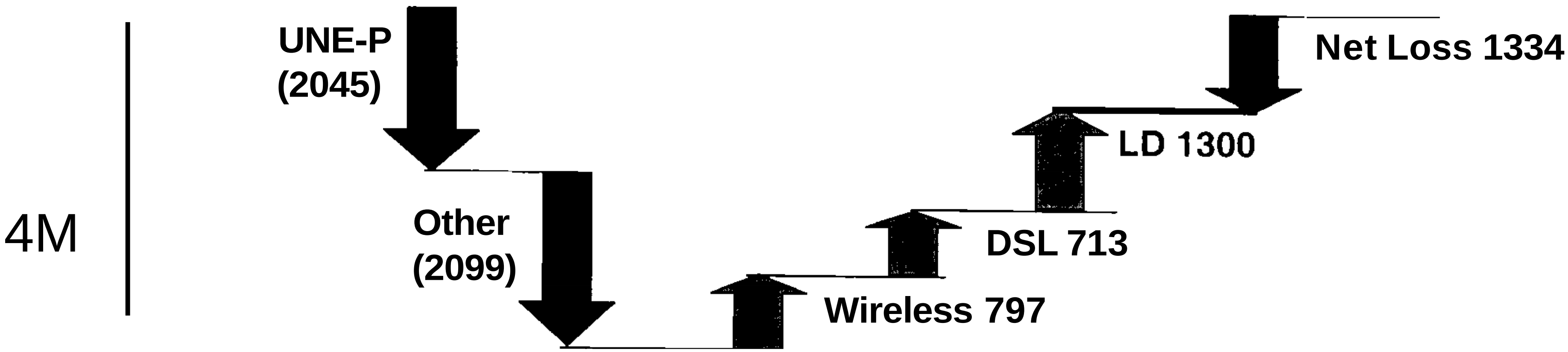


Qwest: Notes

- Q has no LD gain, because it has not yet received 271 relief
  - It operates as an LD service provider outside its own ILEC region; these data are NOT included here
- Q has also gained only marginally from the surge in wireless/mobile
- On the other hand: it has lost the least to UNE-P
  - Absolute: 39k lines; Percentage: 0.2%
  - Assuredly because of the relatively “undesirable” cities in the Q region

SBC

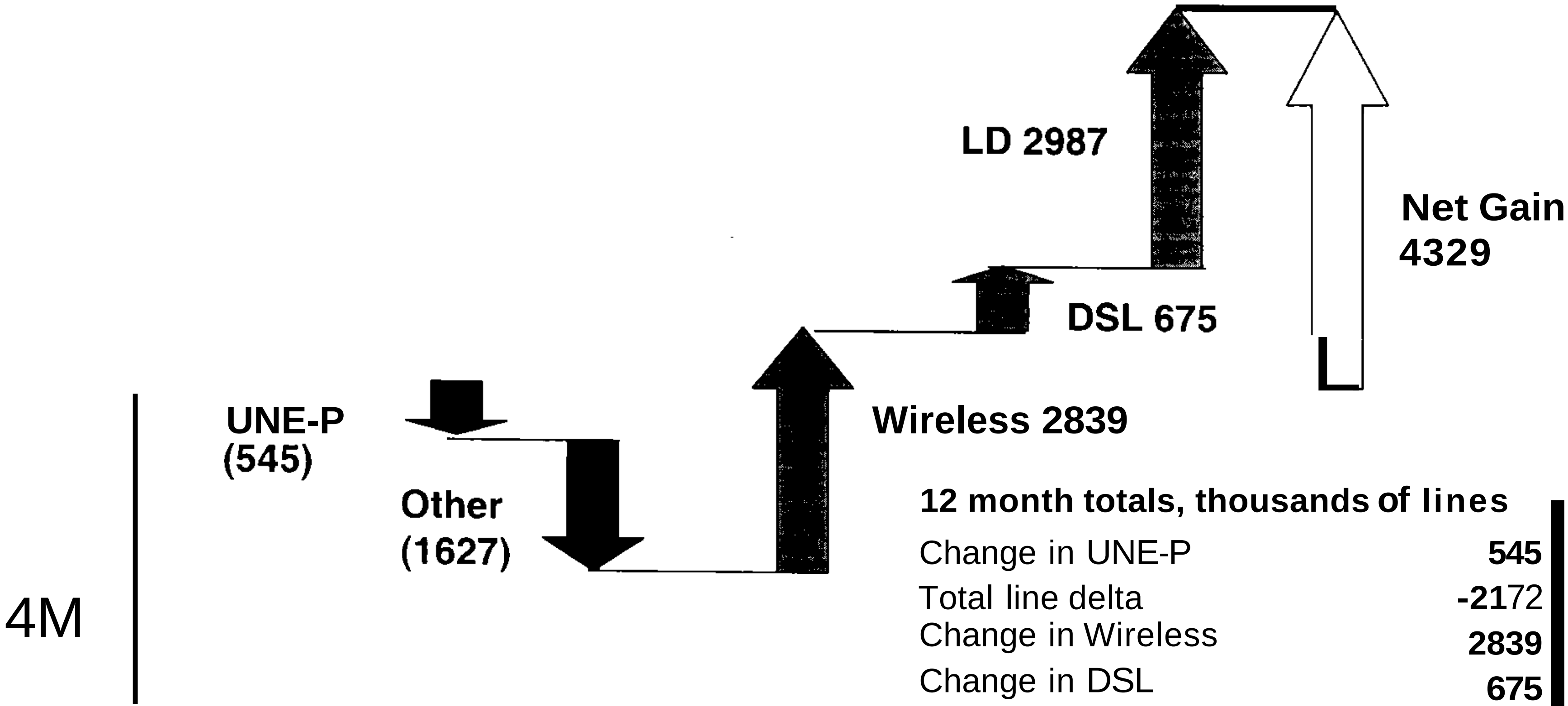
12 **month totals, thousands of lines**	
Change in UNE-P	**2045**
Total line delta	-4144
Change in Wireless	**797**
Change in DSL	**713**
Change in LD	**1300**
Composite net	-1334
Net as % of base	**-2.6%**



SBC: Notes

- SBC has lost the most lines to UNE-P
  - 2M -- ~4% of its 52M line base
- One factor is that T, WCOM have been aggressive in entering Calif., local services through UNE-P … while SBC's entrance into Calif. LD has yet to unfold
- Another factor that dampens its showing is that Cingular, which it controls w/ BLS, did rather poorly in 2002.
- Also: data @ www.sbc.com is incomplete and inaccurate

Verizon



12 month totals, thousands of lines

Change in UNE-P	545
Total line delta	-2172
Change in Wireless	2839
Change in DSL	675
Change in LD	2987
Composite net	4329
Net as % of base	7.4%

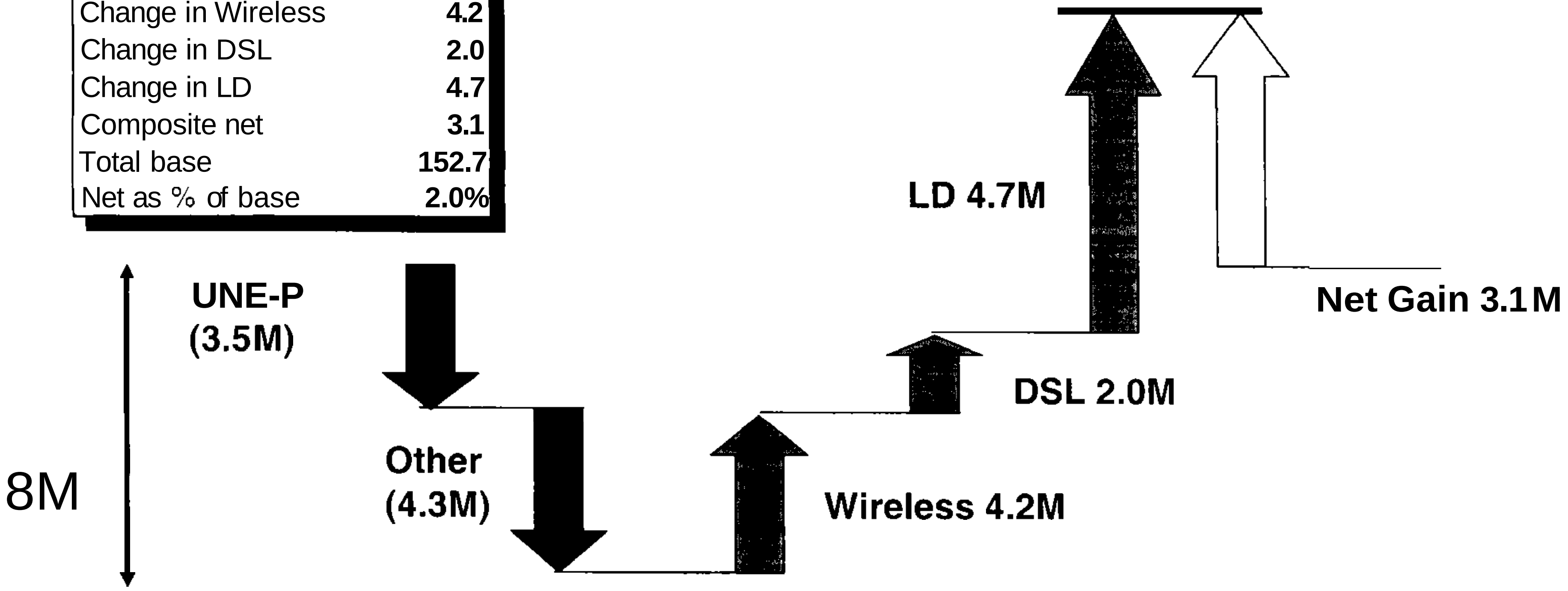
UNE-P situation, 3Q 02

Verizon: Notes

- VZ has:
  - The 2nd lowest UNE-P capture rate (as % of total lines)
    - 0.9% of its 58.6M lines
  - The most aggressive entrance into LD
    - Making VZ the 3rd largest LD in U.S.

Composite: Net for All 4 ILECs Combined

Millions of lines	
Twelve month totals	
Change in UNE-P	**3.5**
Total line delta	***-7.8***
Change in Wireless	**4.2**
Change in DSL	**2.0**
Change in LD	**4.7**
Composite net	**3.1**
Total base	**152.7**
Net as % of base	**2.0%**



Conclusions

- UNE-P accounts for less than half of the loss of access lines in 12-month period to 3Q 02
- RBOC line loss to UNE-P, in units and in aggregate, is slightly smaller than RBOC line gain in LD
  - 3.5M lines lost to UNE-P; 4.7M lines gained in LD
  - In plain language: even though LD entrance comes after passing the 14-point test that includes fairness in unbundling, RBOCs have already gained more LD accounts in units than the number of local accounts they have lost through UNE-P

Caveats

- This analysis focuses on units. In this context, it seems that the LD – local *quid pro quo* of section 271 relief/unbundling has proceeded reasonably well, with neither side gaining the upper hand
  - More plainly: RBOCs are approximately holding their position, even gaining some ground, despite open competition from MSOs (cable modems, cable telephony), IXCs & CLECs (through UNE-P) and competition in mobile voice services
- This analysis does not speak to revenues (e.g., whether TELRIC is a fair mechanism for compensating RBOCs), nor to the long-term use of UNE-P as an appropriate basis for competition on grounds other than those shown here.